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13 APR 1961

MEMORANDUM FOR: Mr. Eugene L. Pahl

SUBJECT : General Accounting Office Draft of Review of Selected Activities of the Office of Central Reference and the Office of Basic Intelligence, Intelligence Component, Central Intelligence Agency

REFERENCE : Memo dtd 22 Mar 61 to Col. L. K. White from Mr. Eugene L. Pahl transmitting three copies of the GAO completed draft report (this subject covered in Appendix E)

1. After reviewing Appendix E to your completed draft report, I am submitting the following comments and positions regarding various statements of fact and the three recommendations:

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a. CONTINGENCY RESERVES IN THE OPERATING BUDGET OF THE INTELLIGENCE COMPONENT



- (1) In the first paragraph on page 60, you state that the Assistant to the Deputy Director (Intelligence) (Administration) advised you "that the annual operating budget of the Intelligence component generally provides for a \$300,000 to \$400,000 contingency reserve for the purpose of financing unbudgeted overt intelligence activities of an emergency nature" and that "He stated that this procedure avoids the necessity for requesting funds from the over-all contingency reserve fund."

The Assistant to the DD/I (Admin) advised you that these amounts were not contingency reserves but represented two distinct types of activity, namely:

- (a) Planned activity which would develop during the fiscal year being budgeted, and
- (b) Approved activity which was at the bottom of the priority spectrum.

Handwritten note in a circle:
Pahl
5-3-61

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An example of the type of activity discussed in subparagraph (a) above was the known requirement for a substantial increase in the scope of activity conducted by the Photographic Intelligence Center. The Assistant to the DD/I (Admin) and the Chief, Budget Division knew from their contacts with other components in the Agency that an expansion of PIC would take place during the budget year and accordingly included funds in the budget to meet that requirement. Under Agency security policy, the Office concerned had not been cleared on this very sensitive activity and thus did not know the planned use of these funds. With reference to subparagraph (b) above, the DD/I reviews his activities at the beginning of each fiscal year for the purpose of determining an activity order of priority. Funds for the lowest priority projects are earmarked and instructions are issued to the effect that certain of these projects are not to be activated without prior clearance with the Office of the DD/I. If new high priority activity develops during the course of the fiscal year, low priority activity is canceled or curtailed to provide funding for the new activity.

- (2) In the second paragraph on page 60, you state: "The Chief, Budget Division advised us that CIA's annual budget estimates are submitted to the Bureau of the Budget and the Congress for review and approval and that these estimates disclose in summary form all of the budgetary data normally submitted by Government agencies, with the exception that details of the CIA requirements are not disclosed."

This Agency submits its budget estimates to the Bureau of the Budget and to Congressional committees in the same amount of detail as is required of other Government agencies. Therefore, I do not understand the basis for the phrase, "with the exception that details of the CIA requirements are not disclosed." As previously stated, cleared personnel of the Bureau of the Budget do review the detailed requirements throughout the Agency on a continuing basis and the Appropriations Committees are furnished full information about the Agency's activities in any amount of detail they desire.

- (3) In the second paragraph on page 60, you also state that the Chief, Budget Division further advised you "that all withdrawals from CIA's over-all contingency reserve fund are subject to prior review and approval by the Bureau of the Budget but that contingency reserves included in the operating budgets of the various CIA components do not require such approval."

There must be a misunderstanding here, since the Chief, Budget Division advises me that at no time has he considered the funds in question as contingency reserves nor did he term them as such in his discussions with you.

- (4) Your recommendation regarding this topic states: "CIA has an over-all contingency reserve fund which is available to it for emergency or unplanned needs. We do not have audit access to the over-all contingency reserve fund, but based upon discussions with officials of the Support component, we understand that this fund is provided to meet such needs as the contingency reserves provide for in the Intelligence component budgets. We recommend, therefore, that the unplanned or emergency needs of the Intelligence component be provided from the over-all contingency reserve fund and that the practice of providing contingency reserves in the operating budgets of the various organizational units of the Intelligence component for use without the prior review and approval of the Bureau of the Budget be discontinued."

As reflected in subparagraphs (1) and (3) above, I do not agree with your term "contingency reserves" as applied to the budget estimates submitted by units under the Intelligence component. I believe the practices outlined in subparagraph (1) are common throughout Government and are encouraged by the Bureau of the Budget in order to avoid submissions of supplemental appropriations or, in our case, releases from the Agency's over-all contingency reserve. Since the Bureau of the Budget's review of Agency activity is a continuing one, the cancellation or curtailment of low priority activity in favor of new higher priority activity is known to them.

b. PROJECTS TRANSCENDING CIA INTEREST AND RESPONSIBILITY

- (1) Your recommendation on this topic states: "We recommend that CIA take action to reappraise the specific needs of the intelligence community for this bibliographic material and, based on this reappraisal, make necessary arrangements to obtain or support only those bibliographic activities necessary to the production of material to meet the specific needs of the intelligence community."

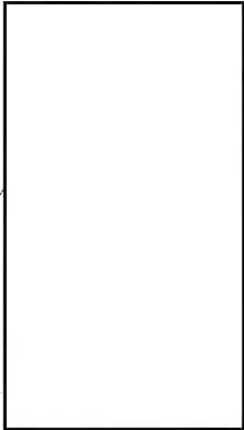
We have requested the various members of the intelligence community to survey their need for and utilization of the Monthly Index of Russian Accessions and the East European Accessions Index. Although we have received informal reaction from most of the intelligence units involved, I would prefer to delay my reply to this recommendation until formal answers are received from each of them. The formal replies, together with the National Science Foundation Survey (referred to in the second paragraph on page 62) which was received this week, will form the basis for a reappraisal of our requirement for these indexes. We should be able to provide a reply on this topic by 28 April 1961.

c. CIA FUNDS SUPPLEMENT APPROPRIATIONS OF THE DEPARTMENT OF STATE

- (1) Your recommendation on this topic states: "To avoid supplementing the annual appropriation of the Department of State, we recommend that CIA discontinue paying the Department for man-years diverted from the CIA-financed NIS project and explore with the Department the feasibility of recovering the cost of the man-years diverted in prior years. We recommend also that the Director of Central Intelligence reappraise the assignment of responsibilities between CIA and the Department of State in relation to the funds available to each of these agencies and, if necessary, obtain additional authority from the Congress for the transfer of funds to carry out the responsibility of the Department of State."

During the past month the Department of State and CIA have been considering the possible transfer of the Department's Bibliographic

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Information and National Intelligence Survey activities to CIA.
If the transfer of these activities takes place, your recommendations will have been accomplished. I will be glad to advise you of the results of these discussions when they are completed.



L. K. White
Deputy Director
(Support)

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